Northern 3 VCT PLC

Half-yearly financial report

30 September 2015

nvm private equity

Northern 3 VCT PLC is a Venture Capital Trust (VCT) managed by NVM Private Equity.

It invests mainly in unquoted venture capital holdings and aims to provide high long-term tax-free returns to shareholders through a combination of dividend yield and capital growth.

Contents

Financial summary

	Six months ended 30 September 2015	Six months ended 30 September 2014	Year ended 31 March 2015
Net assets	£66.3m	£70.3m	£71.2m
Net asset value per share	100.7p	105.5p	107.2p
Return per share			
Revenue	1.1p	1.3p	2.5p
Capital	5.8p	(1.1)p	1.4p
Total	6.9p	0.2p	3.9p
Dividend declared in respect of the period*	2.0p	2.0p	15.5p
Cumulative return to shareholders since launch			
Net asset value per share	100.7p	105.5p	107.2p
Dividends paid per share**	62.9p	47.4p	49.4p
Net asset value plus dividends paid per share	163.6p	152.9p	156.6p
Mid-market share price at end of period	90.00p	95.75p	96.75p
Share price discount to net asset value	10.6%	9.2%	9.7%
Tax-free dividend yield (based on mid-market share price)			
Including special dividend	N/A	N/A	16.0%
Excluding special dividend	6.1%	5.7%	5.7%

*Year ended 31 March 2015 includes 10.0p special dividend **Excluding interim dividend not yet paid

Key dates

Half-yearly results announced
12 November 2015

Shares quoted ex dividend
7 January 2016

Record date for interim divided
8 January 2016

Interim dividend paid
29 January 2016

Half-yearly management report

for the six months ended 30 September 2015

The venture capital portfolio continues to make good overall progress.

Results and dividend

The unaudited net asset value (NAV) per share at 30 September 2015 was 100.7p (31 March 2015 107.2p). The September figure is stated after deducting the second interim and final dividends totalling 13.5p per share in respect of the year ended 31 March 2015, which were paid in July 2015. The second interim dividend of 10.0p was a special payment out of the proceeds of profitable investment sales completed in the final quarter of the 2014/15 financial year.

The return per share for the half year as shown in the income statement, before deducting the dividend, was 6.9p compared with 0.2p in the six month period ended 30 September 2014.

The directors have declared an unchanged interim dividend of 2.0p per share, which will be paid on 29 January 2016 to shareholders on the register at the close of business on 8 January 2016. It is our present objective to maintain an annual dividend of at least 5.5p per share.

In July we suspended the dividend investment scheme (DRIS) under which shareholders had been able to re-invest their dividends in new ordinary shares in the company. We reluctantly took this step because of the uncertainty caused by the Government's proposed changes to the VCT legislation. Although we are making some progress in absorbing the implications of these changes, we do not yet feel that it is appropriate to re-instate the DRIS and so it remains suspended until further notice.

Investment portfolio

Total additions to the venture capital portfolio in the half year amounted to £11.3 million. Two new holdings in unquoted trading companies and two AIM-quoted holdings were acquired at a cost of £3.1 million, as follows:

- **Entertainment Magpie Group** (£1,360,000) – operator of website for re-selling pre-owned entertainment media and electronic items, Manchester
- **Love Energy Savings** (£1,017,000) – business-to-business energy cost comparison and procurement service, Bolton
- **Vislink** (£564,000) – AIM-quoted provider of communications technology to the broadcast, security and defence industries, Hungerford
- **Gear4music (Holdings)** (£150,000) – AIM-quoted online retailer of musical instruments and music equipment, York

In addition £8.2 million was invested in six companies formed with a view to acquiring trading businesses.

Proceeds from investment sales and repayments amounted to £3.0 million, producing a gain of £0.7 million over 31 March 2015 carrying values. The majority shareholder in **Tinglobal Holdings** purchased our remaining holding for £0.7 million and the investment in **Direct Valeting** was sold to a trade acquirer for £0.4 million, realising a satisfactory profit in each case. The AIM-quoted investments in **Accumuli** and **Nationwide Accident Repair Services** were sold at a profit following recommended bids. **Warmseal Windows (Newcastle)**, which had previously been written down to nil value, went into administration after a long period of difficult trading. Several other investee companies are currently in discussions with a view to possible exits.

The venture capital portfolio continues to make good overall progress and this is reflected in a number of individual valuation uplifts. A small number of companies have performed less well than expected and are receiving close attention and support from our investment manager.

James Ferguson *Chairman*

Share issues and buy-backs

The company has enjoyed a strong cash position following the successful £20 million public share offer in the 2013/14 tax year. Your board did not consider it appropriate to launch a further share issue in the 2014/15 tax year and indeed we were able to declare a special dividend totalling £6.6 million from the proceeds of investment realisations. With funds still available for future investment, and a reasonable prospect of more realisations over the next six months, we do not envisage raising funds from investors in the 2015/16 tax year.

In May it was announced that the discount to NAV at which the company buys back shares in the market would be reduced from 10% to 5%. 520,000 shares were re-purchased during the six months ended 30 September 2015 at a cost of £466,000.

VCT qualifying status

The company has continued to comply with the conditions laid down by HM Revenue & Customs for the maintenance of approved venture capital trust status. Our managers monitor the position closely and the board also receives regular reports from our taxation advisers at Robertson Hare LLP.

VCT legislation

The Government introduced new legislation in the Summer Finance Bill 2015 which will have a significant impact on the investment activities of most VCTs. I wrote to shareholders in July 2015 to inform you that the directors were assessing the effect of the new provisions, which at the time were subject to further clarification and amendment by the Government.

The Finance Bill is expected to receive Royal Assent shortly and it is clear that the range of potential investments open to generalist VCTs such as your company will be reduced, as the Government seeks to implement the European Commission's State aid guidelines which require VCTs to focus more sharply on the provision of growth capital to younger companies.

Your directors are working closely with NVM and our other professional advisers to understand the full implications of the new rules for our future investment activities, and to adapt our approach to the new regime as we seek to maintain our strong long-term investment performance. We will report the outcome of our review to shareholders in due course.

Prospects

Financial markets have been adversely affected over the past six months by concerns about a slowdown in the Chinese economy, as well as specific sector issues such as those resulting from the fall in the oil price. This will present challenges to our investee companies, but the portfolio has shown an encouraging degree of resilience and we expect to see some profitable exits in the second half of the year.

On behalf of the Board

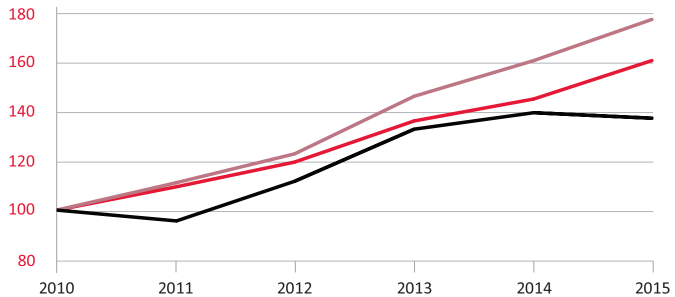
James Ferguson
Chairman

12 November 2015

Five year performance

Comparative return to shareholders (assuming dividends re-invested)

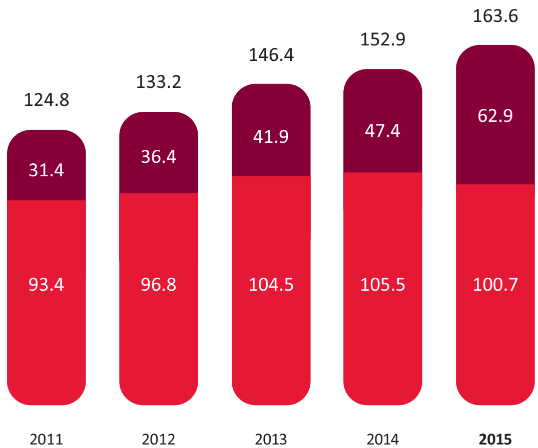
Five years to 30 September 2015 (30 September 2010 = 100)



Northern 3 VCT NAV total return
Northern 3 VCT share price total return
UK equity market index total return

Net asset value and cumulative dividends per share

As at 30 September (pence per share)



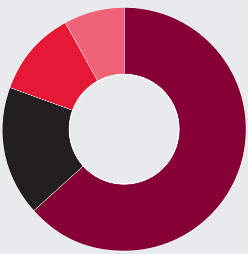
Cumulative dividends paid
Net asset value per share

Investment portfolio

as at 30 September 2015

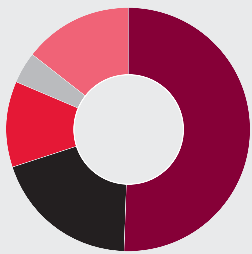
	Cost £000	Valuation £000	% of net assets by value
Fifteen largest private equity investments			
Buoyant Upholstery	1,294	2,721	4.1
Lineup Systems	974	2,467	3.7
MSQ Partners Group	1,477	2,296	3.4
IDOX*	600	2,006	3.0
Biological Preparations Group	1,915	1,915	2.9
Volumatic Holdings	1,929	1,901	2.9
Kitwave One	1,001	1,900	2.9
Silverwing	1,272	1,673	2.5
Axial Systems Holdings	1,293	1,569	2.4
Closerstill Group	1,520	1,520	2.3
Wear Inns	1,406	1,461	2.2
Control Risks Group Holdings	746	1,461	2.2
No 1 Traveller	1,441	1,454	2.2
Agilitas IT Holdings	1,448	1,452	2.2
It's All Good	1,131	1,411	2.1
	19,447	**27,207**	**41.0**
Other private equity investments	27,761	26,297	39.7
Total private equity investments	**47,208**	**53,504**	**80.7**
Listed equity investments	7,951	7,582	11.4
Total fixed asset investments	**55,159**	**61,086**	**92.1**
Net current assets		5,204	7.9
Net assets		**66,290**	**100.0**

*Quoted on AIM



Asset allocation

30 September 2015		30 September 2014
63.6%	Venture capital – unquoted	50.7%
17.1%	Venture capital – quoted	19.3%
11.5%	Listed equity	11.6%
0.0%	Listed interest-bearing	4.2%
7.8%	Cash and short term deposits	14.2%



30 September 2015

30 September 2014

Income statement

(unaudited) for the six months ended 30 September 2015

	Six months ended 30 September 2015 Revenue £000	Capital £000	Total £000
Gain on disposal of investments	–	639	639
Movements in fair value of investments	–	3,678	3,678
	–	4,317	4,317
Income	1,148	–	1,148
Investment management fee	(183)	(550)	(733)
Other expenses	(173)	–	(173)
Return on ordinary activities before tax	792	3,767	4,559
Tax on return on ordinary activities	(67)	67	–
Return on ordinary activities after tax	725	3,834	4,559
Return per share	1.1p	5.8p	6.9p
Dividends paid/proposed in respect of the period	1.0p	1.0p	2.0p

- The total column of this statement is the profit and loss account of the company. The supplementary revenue return and capital return columns have been prepared under guidance published by the Association of Investment Companies.
- There are no recognised gains or losses other than those disclosed in the income statement.
- All items in the above statement derive from continuing operations.

Reconciliation of movements in shareholders' funds

(unaudited) for the six months ended 30 September 2015

	Six months ended 30 September 2015 £000
Equity shareholders' funds at 1 April 2015	71,155
Return on ordinary activities after tax	4,559
Dividends recognised in the period	(8,958)
Net proceeds of share issues	–
Shares purchased for cancellation	(466)
Equity shareholders' funds at 30 September 2015	66,290

Six months ended 30 September 2014			Year ended 31 March 2015		
Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
–	97	97	–	3,429	3,429
–	(369)	(369)	–	(1,693)	(1,693)
–	(272)	(272)	–	1,736	1,736
1,328	–	1,328	2,676	–	2,676
(184)	(551)	(735)	(364)	(1,094)	(1,458)
(185)	–	(185)	(376)	–	(376)
959	(823)	136	1,936	642	2,578
(113)	113	–	(261)	261	–
846	(710)	136	1,675	903	2,578
1.3p	(1.1)p	0.2p	2.5p	1.4p	3.9p
1.0p	1.0p	2.0p	2.5p	13.0p	15.5p

Six months ended 30 September 2014 £000	Year ended 31 March 2015 £000
71,297	71,297
136	2,578
(2,322)	(3,654)
1,296	1,416
(147)	(482)
70,260	71,155

Balance sheet

(unaudited) as at 30 September 2015

	30 September 2015 £000	30 September 2014 £000	31 March 2015 £000
Fixed assets			
Investments	61,086	60,226	50,371
Current assets			
Debtors	169	223	255
Cash and deposits	5,158	9,979	20,726
	5,327	10,202	20,981
Creditors (amounts falling due within one year)	(123)	(168)	(197)
Net current assets	5,204	10,034	20,784
Net assets	66,290	70,260	71,155
Capital and reserves			
Called-up equity share capital	3,292	3,329	3,318
Share premium	1,348	1,235	1,348
Capital redemption reserve	61	17	35
Capital reserve	54,754	52,489	62,884
Revaluation reserve	5,927	12,176	2,393
Revenue reserve	908	1,014	1,177
Total equity shareholders' funds	66,290	70,260	71,155
Net asset value per share	100.7p	105.5p	107.2p

Cash flow statement

(unaudited) for the six months ended 30 September 2015

	Six months ended 30 September 2015 £000	Six months ended 30 September 2014 £000	Year ended 31 March 2015 £000
Net cash inflow/(outflow) from operating activities	254	(361)	70
Taxation			
Corporation tax paid	–	–	–
Financial investment			
Purchase of investments	(11,937)	(7,694)	(12,986)
Sale/repayment of investments	5,539	5,639	22,794
Net cash (outflow)/inflow from financial investment	(6,398)	(2,055)	9,808
Equity dividends paid	(8,958)	(2,322)	(3,654)
Net cash (outflow)/inflow before financing	(15,102)	(4,738)	6,224
Financing			
Issue of ordinary shares	–	1,330	1,463
Share issue expenses	–	(34)	(47)
Purchase of ordinary shares for cancellation	(466)	(147)	(482)
Net cash (outflow)/inflow from financing	(466)	1,149	934
(Decrease)/increase in cash and deposits	(15,568)	(3,589)	7,158
Reconciliation of return before tax to net cash flow from operating activities			
Return on ordinary activities before tax	4,559	136	2,578
Gain on disposal of investments	(639)	(97)	(3,429)
Movements in fair value of investments	(3,678)	369	1,693
Decrease in debtors	86	65	33
(Decrease) in creditors	(74)	(834)	(805)
Net cash inflow/(outflow) from operating activities	254	(361)	70

Analysis of movement in net funds	1 April 2015 £000	Cash flows £000	30 September 2015 £000
Cash and deposits	20,726	(15,568)	5,158

Notes to the financial statements

(unaudited) for the six months ended 30 September 2015

1 The financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial instruments, and in accordance with UK Generally Accepted Accounting Practice (UK GAAP). Where presentational guidance set out in the Statement of Recommended Practice (SORP) "Financial Statements of Investment Trust Companies", revised in January 2015, is consistent with the requirements of UK GAAP, the directors have sought to prepare the financial statements on a consistent basis compliant with the recommendations of the SORP.

2 The calculation of return per share is based on the return on ordinary activities after tax for the six months ended 30 September 2015 and on 66,188,044 (2014 66,269,375) ordinary shares, being the weighted average number of shares in issue during the period.

3 The calculation of net asset value per share is based on the net assets at 30 September 2015 divided by the 65,833,399 (2014 66,575,347) ordinary shares in issue at that date.

4 The interim dividend of 2.0p per share for the year ending 31 March 2016 will be paid on 29 January 2016 to shareholders on the register at the close of business on 8 January 2016.

5 The unaudited half-yearly financial statements for the six months ended 30 September 2015 do not constitute statutory financial statements within the meaning of Section 434 of the Companies Act 2006, have not been reviewed or audited by the company's independent auditor and have not been delivered to the Registrar of Companies. The comparative figures for the year ended 31 March 2015 have been extracted from the audited financial statements for that year, which have been delivered to the Registrar of Companies; the independent auditor's report on those financial statements (i) was unqualified, (ii) did not include any reference to matters to which the auditor drew attention by way of emphasis without qualifying the report and (iii) did not contain a statement under Section 498(2) or (3) of the Companies Act 2006. The half-yearly financial statements have been prepared on the basis of the accounting policies set out in the annual financial statements for the year ended 31 March 2015.

6 Each of the directors confirms that to the best of their knowledge the half-yearly financial statements have been prepared in accordance with the Statement "Half-yearly financial reports" issued by the UK Accounting Standards Board and the half-yearly financial report includes a fair review of the information required by (a) DTR 4.2.7R of the Disclosure Rules and Transparency Rules, being an indication of important events that have occured during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year, and (b) DTR 4.2.8R of the Disclosure Rules and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period, and any changes in the related party transactions described in the last annual report that could do so.

7 Copies of this half-yearly report have been mailed to shareholders and are available to the public at the company's registered office, and on the NVM Private Equity website, www.nvm.co.uk.

Risk management

The board carries out a regular review of the risk environment in which the company operates. The principal risks and uncertainties identified by the board are as follows:

Investment and liquidity risk: many of the company's investments are in small and medium-sized unquoted and AIM-quoted companies which are VCT qualifying holdings, and which by their nature entail a higher level of risk and lower liquidity than investments in large quoted companies. ***Mitigation:*** the directors aim to limit the risk attaching to the portfolio as a whole by careful selection, close monitoring and timely realisation of investments, by carrying out rigorous due diligence procedures and maintaining a wide spread of holdings in terms of financing stage and industry sector. The board reviews the investment portfolio with the manager on a regular basis.

Financial risk: most of the company's investments involve a medium- to long-term commitment and many are relatively illiquid. ***Mitigation:*** the directors consider that it is inappropriate to finance the company's activities through borrowing except on an occasional short-term basis. Accordingly they seek to maintain a proportion of the company's assets in cash or cash equivalents in order to be in a position to take advantage of new unquoted investment opportunities. The company has very little direct exposure to foreign currency risk and does not enter into derivative transactions.

Economic risk: events such as economic recession or general fluctuation in stock markets and interest rates may affect the valuation of investee companies and their ability to access adequate financial resources, as well as affecting the company's own share price and discount to net asset value. ***Mitigation:*** the company invests in a diversified portfolio of investments spanning various industry sectors, and maintains sufficient cash reserves to be able to provide additional funding to investee companies where appropriate.

Stock market risk: some of the company's investments are quoted on the London Stock Exchange or AIM and will be subject to market fluctuations upwards and downwards. External factors such as terrorist activity can negatively impact stock markets worldwide. In times of adverse sentiment there can be very little, if any, market demand for shares in smaller companies quoted on AIM. ***Mitigation:*** the company's quoted investments are actively managed by specialist managers and the board keeps the portfolio under ongoing review.

Credit risk: the company holds a number of financial instruments and cash deposits and is dependent on the counterparties discharging their commitment. ***Mitigation:*** the directors review the creditworthiness of the counterparties to these instruments and cash deposits and seek to ensure there is no undue concentration of credit risk with any one party.

Legislative and regulatory risk: in order to maintain its approval as a VCT, the company is required to comply with current VCT legislation in the UK, which reflects the European Commission's state aid rules. Changes to the UK legislation or the state aid rules in the future could have an adverse effect on the company's ability to achieve satisfactory investment returns whilst retaining its VCT approval. ***Mitigation:*** the board and the manager monitor political developments and where appropriate seek to make representations either directly or through relevant trade bodies.

Internal control risk: the company's assets could be at risk in the absence of an appropriate internal control regime. ***Mitigation:*** the board regularly reviews the system of internal controls, both financial and non-financial, operated by the company and the manager. These include controls designed to ensure that the company's assets are safeguarded and that proper accounting records are maintained.

VCT qualifying status risk: the company is required at all times to observe the conditions laid down in the Income Tax Act 2007 for the maintenance of approved VCT status. The loss of such approval could lead to the company losing its exemption from corporation tax on capital gains, to investors being liable to pay income tax on dividends received from the company and, in certain circumstances, to investors being required to repay the initial income tax relief on their investment. ***Mitigation:*** the manager keeps the company's VCT qualifying status under continual review and its reports are reviewed by the board on a quarterly basis. The board has also retained Robertson Hare LLP to undertake an independent VCT status monitoring role.

Company information

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John Waddell

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Christopher Mellor FCA MCSI

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